

Perpetual Federal

SAVINGS BANK

2013 Annual Report

PERPETUAL FEDERAL SAVINGS BANK

ANNUAL REPORT
September 30, 2013

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ANNUAL MEETING

The Annual Meeting of Stockholders is scheduled for January 22, 2014 at 1:30 p.m. at the Perpetual Federal Savings Bank office located at 120 North Main Street, Urbana, Ohio 43078.

In Recognition

The 2013 Annual Report of The Perpetual Federal Savings Bank is dedicated to our retiring director, William G. Edwards



This year brings to a close 24 years of service by William G. (Bill) Edwards on our Board of Directors.

When selecting a board member, there are many attributes you look for in your selection, some of which are:

- Exercise your responsibilities with a duty of care, loyalty and reasonable diligence
- Exercise independent judgment
- Keep well informed
- Be attentive to risk
- Represent the shareholders' interest above one's self at all time

Bill has performed the above requirements to his fullest throughout his 24 years of service to our shareholders without reservation. Bill provided a steady voice of reason and a common sense approach to any decision before him and served as a sounding board whenever I sought out his wisdom and expertise.

Bill, for many years, was a Rotarian and served our local club as president. Rotary has a Four-Way Test and it goes like this:

- Is it the truth?
- Is it fair to all concerned?
- Will it build goodwill and better friendships?
- Will it be beneficial to all concerned?

Bill has served our institution and our community by following the above principles.

On behalf of the Board of Directors, officers and staff of Perpetual Federal, I wish to extend to Bill our sincere appreciation for his services rendered.

Sincerely,

A handwritten signature in cursive script that reads "Michael R. Melvin".

Michael R. Melvin
President

December 10, 2013

To Our Shareholders:

I am pleased to invite your review of our 2013 Annual Report to Shareholders.

You will note that we were able to shrink our balance sheet to a level that permitted us to generate an increased bottom line and reflect a return on asset (R.O.A) above 1.00%.

This is the fourth consecutive year that interest rate spreads have improved, and this also holds true for our net interest margin.

This same four-year period saw our shareholders' equity to total assets increase to 17.12% and an increase in dividends paid.

The following offers a brief summary of the year's operating results compared to last year.

| | | |
|---------------------------------|---------------|-----------------------------|
| Net Income..... | \$3,943,000 |an increase of 19.6% |
| Earnings (per share)..... | \$1.60 |an increase of 19.4% |
| Dividends Paid (per share)..... | \$0.85 |an increase of 30.8% * |
| Shareholders' Equity..... | \$60,208,000 |an increase of 3.2% |
| Loan Loss Allowance | \$4,597,604 |an increase of 1.6% |
| Total Assets..... | \$351,608,000 |a decrease of 3.4% |

*The bank paid a double dividend of \$.34 per share in the first quarter of this fiscal year to accelerate the second quarter dividend into tax year 2012. After review of earnings for the first six months of fiscal year 2013, it was determined to proceed with dividends of \$0.17 per quarter thus resulting in an additional quarter's dividend being paid to shareholders.

We are still uncertain as to what period of time the Fed will continue to hold down interest rates through its different programs.

We will continue to contract our balance sheet when necessary to remain profitable and to expand the balance sheet when we see an opportunity for profitable growth.

As always, we appreciate your continued investment in our institution.

Sincerely,



Michael R. Melvin
President

PERPETUAL FEDERAL SAVINGS BANK
SELECTED FINANCIAL INFORMATION

At or for the year ended September 30,
2013 2012 2011 2010
(In thousands, except per share data)

Selected Financial Condition Data:

| | | | | |
|--|------------|------------|------------|------------|
| Total assets | \$ 351,608 | \$ 364,096 | \$ 364,118 | \$ 361,983 |
| Loans receivable, net | 285,274 | 294,658 | 306,525 | 311,423 |
| Interest-bearing deposits in other financial institutions | 6,434 | 12,321 | 17,746 | 12,000 |
| Deposits | 282,581 | 289,699 | 284,039 | 274,251 |
| Borrowings | 8,000 | 15,250 | 22,750 | 31,411 |
| Shareholders' equity | 60,208 | 58,365 | 56,672 | 55,585 |

Selected Operations Data:

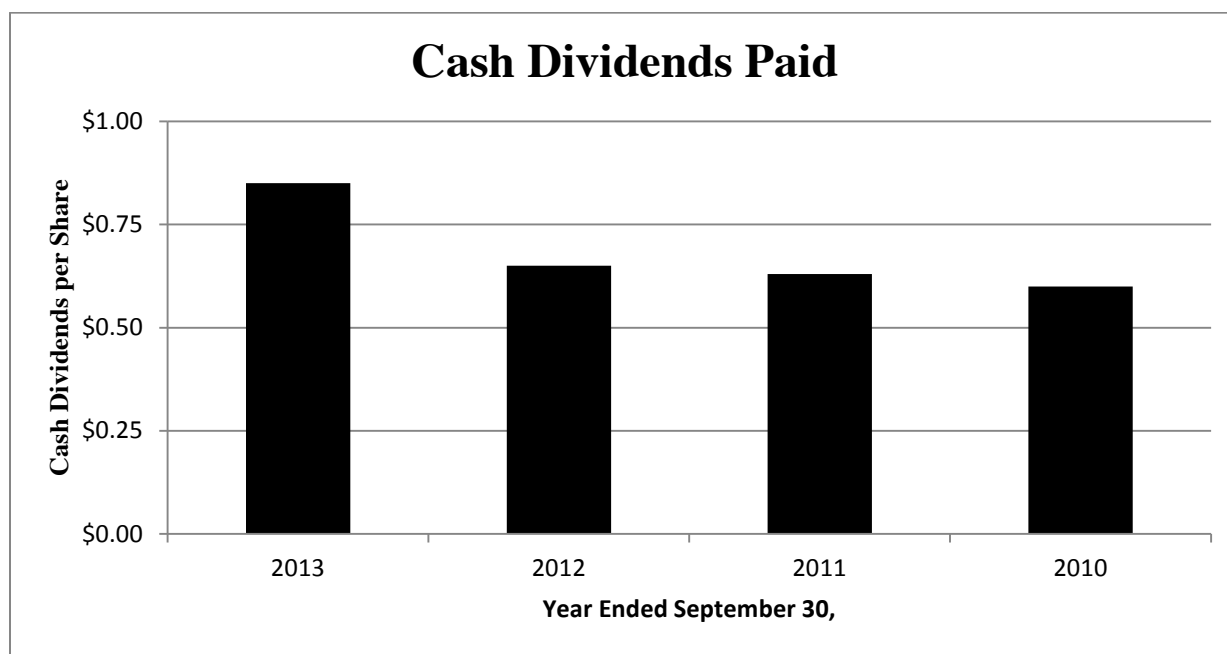
| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Total interest income | \$ 16,097 | \$ 17,966 | \$ 18,469 | \$ 19,794 |
| Total interest expense | 4,669 | 6,071 | 7,175 | 9,133 |
| Net interest income | 11,428 | 11,895 | 11,294 | 10,661 |
| Provision for loan losses | 837 | 2,705 | 3,698 | 3,296 |
| Net interest income after provision for loan losses | 10,591 | 9,190 | 7,596 | 7,365 |
| Noninterest income | 47 | 45 | 41 | 35 |
| Noninterest expense | 4,686 | 4,260 | 3,656 | 3,847 |
| Income before income tax | 5,952 | 4,975 | 3,981 | 3,553 |
| Income tax expense | 2,009 | 1,677 | 1,338 | 1,191 |
| Net income | <u>\$ 3,943</u> | <u>\$ 3,298</u> | <u>\$ 2,644</u> | <u>\$ 2,362</u> |

Earnings per common share:

| | | | | |
|---------|----------------|----------------|----------------|----------------|
| Basic | <u>\$ 1.60</u> | <u>\$ 1.34</u> | <u>\$ 1.07</u> | <u>\$ 0.96</u> |
| Diluted | <u>\$ 1.60</u> | <u>\$ 1.34</u> | <u>\$ 1.07</u> | <u>\$ 0.96</u> |

Dividends per share

| | | | | |
|--|----------------|----------------|----------------|----------------|
| | <u>\$ 0.85</u> | <u>\$ 0.65</u> | <u>\$ 0.63</u> | <u>\$ 0.60</u> |
|--|----------------|----------------|----------------|----------------|



PERPETUAL FEDERAL SAVINGS BANK
SELECTED FINANCIAL INFORMATION (Continued)

| | <u>At or for the year ended September 30.</u> | | | |
|---|---|-------------|-------------|-------------|
| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
| Other Data: | | | | |
| Interest rate spread information | | | | |
| Average during year | 3.01% | 2.95% | 2.75% | 2.51% |
| End of year | 2.84 | 2.94 | 2.91 | 2.65 |
| Net interest margin (ratio of net interest income to average interest-earning assets) | 3.25 | 3.25 | 3.11 | 2.98 |
| Average interest-earning assets to average interest-bearing liabilities | 118.36 | 118.18 | 118.69 | 118.36 |
| Nonperforming assets to total assets at end of period | 1.84 | 1.72 | 2.55 | 2.57 |
| Shareholders' equity to total assets at end of period | 17.12 | 16.03 | 15.56 | 15.36 |
| Return on assets (ratio of net income to average total assets) | 1.10 | 0.91 | 0.73 | 0.66 |
| Return on shareholders' equity (ratio of net income to average equity) | 6.64 | 5.73 | 4.69 | 4.26 |
| Dividend payout ratio | 53.25 | 48.68 | 58.86 | 62.73 |
| Average shareholders' equity to average total assets | 16.56 | 15.62 | 15.51 | 15.45 |
| Efficiency ratio (ratio of noninterest expense to net interest income and other income) | 40.84 | 35.68 | 32.11 | 35.80 |
| Number of full service offices | 1 | 1 | 1 | 1 |

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Perpetual Federal Savings Bank
Urbana, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Perpetual Federal Savings Bank, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perpetual Federal Savings Bank as of September 30, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP
Crowe Horwath LLP

Columbus, Ohio
December 10, 2013

PERPETUAL FEDERAL SAVINGS BANK
BALANCE SHEETS
September 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------|----------------|
| ASSETS | | |
| Cash and due from banks | \$ 2,553,372 | \$ 3,511,857 |
| Interest-bearing deposits | 51,200,026 | 46,864,642 |
| Total cash and cash equivalents | 53,753,398 | 50,376,499 |
| Interest-bearing time deposits | 6,434,000 | 12,321,000 |
| Federal Home Loan Bank stock - at cost | 3,044,000 | 3,044,000 |
| Loans (Net of allowance for loan losses: 2013 - \$4,597,604 2012 - \$4,523,948) | 285,273,883 | 294,657,627 |
| Premises and equipment, net | 772,912 | 728,895 |
| Accrued interest receivable | 1,230,671 | 1,399,591 |
| Other real estate owned | 60,000 | 100,407 |
| Prepaid FDIC insurance premium | - | 270,318 |
| Other assets | 1,039,190 | 1,197,977 |
| | \$ 351,608,054 | \$ 364,096,314 |
| LIABILITIES | | |
| Deposits | \$ 282,581,397 | \$ 289,699,109 |
| Borrowings | 8,000,000 | 15,250,000 |
| Advance payments by borrowers for taxes and insurance | 181,055 | 170,882 |
| Other liabilities | 637,237 | 611,448 |
| Total liabilities | 291,399,689 | 305,731,439 |
| SHAREHOLDERS' EQUITY | | |
| Serial preferred stock, no par value established, 500,000 shares authorized; none outstanding | - | - |
| Common stock, \$0.01 par value, 6,000,000 shares authorized; 2,470,032 shares issued and outstanding | 24,700 | 24,700 |
| Additional paid-in capital | 11,197,001 | 11,197,001 |
| Retained earnings | 48,986,664 | 47,143,174 |
| Total shareholders' equity | 60,208,365 | 58,364,875 |
| | \$ 351,608,054 | \$ 364,096,314 |

See accompanying notes to the financial statements

PERPETUAL FEDERAL SAVINGS BANK
STATEMENTS OF INCOME
Years ended September 30, 2013, 2012 and 2011

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|---------------------|
| Interest and dividend income | | | |
| Loans, including fees | \$ 15,781,690 | \$ 17,666,249 | \$ 18,193,866 |
| Interest-bearing deposits | 182,239 | 170,488 | 145,713 |
| Other | 133,018 | 129,548 | 129,349 |
| | <u>16,096,947</u> | <u>17,966,285</u> | <u>18,468,928</u> |
| Interest expense | | | |
| Deposits | 4,118,936 | 5,089,546 | 6,058,796 |
| Borrowings | 549,753 | 981,197 | 1,116,063 |
| | <u>4,668,689</u> | <u>6,070,743</u> | <u>7,174,859</u> |
| Net interest income | 11,428,258 | 11,895,542 | 11,294,069 |
| Provision for loan losses | <u>836,775</u> | <u>2,705,095</u> | <u>3,698,240</u> |
| Net interest income after provision for loan losses | 10,591,483 | 9,190,447 | 7,595,829 |
| Noninterest income | | | |
| Service charges and other fees | 7,159 | 11,619 | 19,185 |
| Other income | 40,056 | 33,246 | 21,978 |
| Total noninterest income | <u>47,215</u> | <u>44,865</u> | <u>41,163</u> |
| Noninterest expense | | | |
| Salaries and employee benefits | 1,426,984 | 1,376,000 | 1,396,403 |
| Occupancy and equipment expense | 125,850 | 96,617 | 109,830 |
| Data processing services | 265,043 | 237,314 | 228,968 |
| State franchise taxes | 739,812 | 705,184 | 690,703 |
| FDIC insurance premium | 232,955 | 299,299 | 328,808 |
| Loss on extinguishment of borrowings | 748,884 | 550,059 | 22,697 |
| Other expenses | 1,146,889 | 995,480 | 878,131 |
| Total noninterest expense | <u>4,686,417</u> | <u>4,259,953</u> | <u>3,655,540</u> |
| Income before income tax | 5,952,281 | 4,975,359 | 3,981,452 |
| Income tax expense | <u>2,009,264</u> | <u>1,677,336</u> | <u>1,337,781</u> |
| Net income | <u>\$ 3,943,017</u> | <u>\$ 3,298,023</u> | <u>\$ 2,643,671</u> |
| Earnings per common share: | | | |
| Basic | <u>\$ 1.60</u> | <u>\$ 1.34</u> | <u>\$ 1.07</u> |
| Diluted | <u>\$ 1.60</u> | <u>\$ 1.34</u> | <u>\$ 1.07</u> |

See accompanying notes to the financial statements

PERPETUAL FEDERAL SAVINGS BANK
 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Years ended September 30, 2013, 2012 and 2011

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Total Shareholders' Equity</u> |
|-----------------------------------|-------------------------|---|------------------------------|---|
| Balance at October 1, 2010 | \$ 24,700 | \$ 11,197,001 | \$ 44,363,122 | \$ 55,584,823 |
| Cash dividends - \$0.63 per share | - | - | (1,556,120) | (1,556,120) |
| Net income | - | - | 2,643,671 | 2,643,671 |
| | | | | |
| Balance at September 30, 2011 | 24,700 | 11,197,001 | 45,450,673 | 56,672,374 |
| Cash dividends - \$0.65 per share | - | - | (1,605,522) | (1,605,522) |
| Net income | - | - | 3,298,023 | 3,298,023 |
| | | | | |
| Balance at September 30, 2012 | 24,700 | 11,197,001 | 47,143,174 | 58,364,875 |
| Cash dividends - \$0.85 per share | - | - | (2,099,527) | (2,099,527) |
| Net income | - | - | 3,943,017 | 3,943,017 |
| | | | | |
| Balance at September 30, 2013 | <u>\$ 24,700</u> | <u>\$ 11,197,001</u> | <u>\$ 48,986,664</u> | <u>\$ 60,208,365</u> |

See accompanying notes to the financial statements

PERPETUAL FEDERAL SAVINGS BANK
STATEMENTS OF CASH FLOWS
Years ended September 30, 2013, 2012 and 2011

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Net income | \$ 3,943,017 | \$ 3,298,023 | \$ 2,643,671 |
| Adjustments to reconcile net income to net cash from operating activities | | | |
| Depreciation | 65,635 | 53,976 | 49,020 |
| Provision for loan losses | 836,775 | 2,705,095 | 3,698,240 |
| Deferred taxes | (47,000) | 1,375,000 | 326,000 |
| Loss(Gain) on sale of real estate owned | (5,000) | 521 | 28,617 |
| Write-down of real estate owned | 30,407 | 66,700 | - |
| Net change in accrued interest receivable | 168,920 | 131,771 | 128,517 |
| Net change in other assets and liabilities | 576,677 | 149,028 | (39,225) |
| Net cash from operating activities | <u>5,569,431</u> | <u>7,780,114</u> | <u>6,834,840</u> |
| Cash flows from investing activities | | | |
| Net change in interest-bearing time deposits | 5,887,000 | 5,425,000 | (5,746,000) |
| Purchase of loans | (1,740,000) | (1,850,000) | - |
| Loans repaid, net of loans granted | 10,286,969 | 10,847,359 | 1,104,997 |
| Property and equipment purchases | (109,652) | (30,592) | (84,019) |
| Proceeds from sale of other real estate owned | 15,000 | 34,479 | 149,188 |
| Net cash from (used in) investing activities | <u>14,339,317</u> | <u>14,426,246</u> | <u>(4,575,834)</u> |
| Cash flows from financing activities | | | |
| Net change in deposit accounts | (7,117,712) | 5,660,078 | 9,788,102 |
| Net change in official items outstanding | (74,783) | 145,732 | 165,225 |
| Net change in advance payments | | | |
| from borrowers for taxes and insurance | 10,173 | (1,284) | (6,387) |
| Repayments of long-term borrowings | (7,250,000) | (7,500,000) | (8,660,606) |
| Cash dividends paid | (2,099,527) | (1,605,522) | (1,556,120) |
| Net cash used in financing activities | <u>(16,531,849)</u> | <u>(3,300,996)</u> | <u>(269,786)</u> |
| Net change in cash and cash equivalents | 3,376,899 | 18,905,364 | 1,989,220 |
| Cash and cash equivalents at beginning of year | <u>50,376,499</u> | <u>31,471,135</u> | <u>29,481,915</u> |
| Cash and cash equivalents at end of year | <u>\$ 53,753,398</u> | <u>\$ 50,376,499</u> | <u>\$ 31,471,135</u> |
| Non-Cash transfer from loans to real estate owned: | \$ - | \$ 165,000 | \$ 94,505 |

See accompanying notes to the financial statements.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Perpetual Federal Savings Bank (the “Savings Bank”) is engaged in the business of providing financial products and services through its office in Urbana, Ohio. Champaign, Clark, Delaware, Franklin and Logan counties in Ohio provide the source of substantially all of the Savings Bank’s deposit and lending activities. The majority of the Savings Bank’s income is derived from mortgage loans secured by one- to four-family residential property, commercial and multi-family real estate loans and, to a lesser extent, construction or development loans, consumer loans, commercial business loans, as well as making other investments. The Savings Bank accepts demand, savings and time deposits.

Subsequent Events: The Savings Bank has evaluated subsequent events for recognition and disclosure through December 10, 2013, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses, the value of other real estate owned, and fair values of financial instruments are particularly subject to change.

Federal Home Loan Bank (“FHLB”) Stock: The Savings Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan origination fees and costs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The net amount of fees and costs deferred is recorded in the balance sheets as part of loans.

Interest income is discontinued at the time a loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Savings Bank’s policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. These policies apply to all classes of loans held by the Savings Bank.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required based on past loan loss experience, known and probable risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Multi-family real estate and commercial real estate loans over \$500,000 are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when the internal grading system indicates a substandard classification. All classes of loans are individually evaluated for impairment. Loans for which terms have been modified and the borrower is experiencing financial difficulties are considered troubled debt restructurings and classified as impaired. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Savings Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Savings Bank over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present in the loan portfolio. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; experience, ability and depth of lending management and other relevant staff; and national and local economic trends and conditions.

Historically, the Savings Bank recognized impairment on loans individually evaluated for impairment through a specific valuation allowance, but did not charge off the impaired loan amount until the loan was resolved and

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

removed from the loan accounting system. During the quarter ended March 31, 2012, the Savings Bank, at the direction of its federal banking regulators, began charging off those principal loan amounts which had previously been specifically impaired through a specific valuation allowance. In addition to reducing loan balances, including nonperforming loans, this new practice had the impact of elevating reported charge-offs for the period and reducing the allowance for loan losses associated with specific reserves. Since these charge-offs were previously specifically reserved, the allowance for loan losses did not need to be replenished after recording these charge-offs.

The portfolio segments include one-to-four family real estate, multi-family real estate, commercial real estate, consumer and commercial loans. One-to-four family and consumer loans rely on the historical cash flows of individual borrowers and on the collateral securing the loan. Multi-family, commercial real estate and commercial segments are comprised of loans with a reliance on historic cash flows of small business borrowers and of small scale investors, as well as the underlying real estate projects or of land. The underwriting criteria across all segments consider the risk attributes to be impacted by weak local economic conditions and a weak real estate market.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 15 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 5 to 7 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense as incurred and improvements are capitalized.

Other Real Estate: Real estate acquired in settlement of loans is initially reported at estimated fair value at acquisition less costs to sell, establishing a new cost basis. After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. At September 30, 2013 the Savings Bank had \$60,000 of other real estate owned with no valuation allowance. At September 30, 2012 the Savings Bank had \$100,400 of other real estate owned with no valuation allowance. Operating costs after acquisition are expensed.

Income Taxes: Income tax expense is the total of the current-year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Savings Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Concentrations of Credit Risk: The Savings Bank grants mortgage, consumer, and commercial loans to customers located primarily in the Champaign, Clark and Logan County areas. In addition, the Savings Bank grants multi-family and commercial real estate loans to borrowers primarily in Franklin and Delaware Counties. At year-end 2013, multi-family and commercial real estate loans to borrowers in Franklin and Delaware Counties comprise 41.3% of gross loans. Almost all of these loans are obtained through an outside loan originator. Also, at September 30, 2013 and 2012 the Savings Bank had \$3,688,062 and \$12,576,673 in deposits at the Federal Home Loan Bank of Cincinnati (“FHLB”) in addition to FHLB stock totaling \$3,044,000.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Flows Reporting: Cash and cash equivalents are defined as cash on hand, amounts due from depository institutions, and interest-bearing deposits in other financial institutions with original maturities of 90 days or less.

Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits with other banks and short-term borrowings under its cash management line of credit with the FHLB.

The Savings Bank paid interest of \$4,711,000, \$6,088,000 and \$7,257,000 and income taxes of \$1,740,000, \$500,000 and \$1,217,000 in 2013, 2012 and 2011.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions have varied maturities and are carried at cost. At September 30, 2013 the weighted average remaining maturity of the Savings Bank's interest-bearing deposits in other financial institutions was 733 days.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividend paid by the Savings Bank to shareholders. See Note 9 for more specific disclosure related to federal savings banks.

Reclassifications: Certain amounts appearing in the 2012 and 2011 financial statements and related notes have been reclassified to conform to the 2013 presentation.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 -- LOANS

Loans receivable consisted of the following at year-end:

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------|-----------------------|
| Mortgage loans | | |
| One-to-four family real estate loans | \$ 123,070,306 | \$ 117,106,275 |
| Multi-family real estate loans | 85,807,258 | 92,194,615 |
| Commercial real estate loans | 71,573,344 | 82,162,420 |
| Real estate construction loans | - | 25,337 |
| | <u>280,450,908</u> | <u>291,488,647</u> |
| Consumer and other loans | | |
| Consumer loans | 3,704,312 | 3,522,124 |
| Commercial loans | 6,657,790 | 5,100,037 |
| | <u>10,362,102</u> | <u>8,622,161</u> |
| Gross loans | 290,813,010 | 300,110,808 |
| Less: | | |
| Deferred loan origination fees and costs, net | (941,523) | (929,233) |
| Allowance for loan losses | (4,597,604) | (4,523,948) |
| | <u>(5,539,127)</u> | <u>(5,453,181)</u> |
| | <u>\$ 285,273,883</u> | <u>\$ 294,657,627</u> |

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended September 30, 2013 and 2012:

| | One-to-four Real Estate | Multi-family Real Estate | Commercial Real Estate | Consumer & Commercial | Unallocated | Total |
|---------------------------------------|----------------------------|-----------------------------|---------------------------|--------------------------|-------------|--------------|
| For the year ended September 30, 2013 | | | | | | |
| Balance at beginning of period | \$ 525,559 | \$ 648,581 | \$ 3,285,107 | \$ 64,701 | \$ - | \$ 4,523,948 |
| Provision for loan losses | 546,024 | 1,197,880 | (892,786) | (14,343) | - | 836,775 |
| Recoveries | 78,574 | 78,578 | 171,111 | 52,915 | - | 381,178 |
| Charge-offs | (372,755) | (723,577) | (47,965) | - | - | (1,144,297) |
| Balance at end of period | \$ 777,402 | \$ 1,201,462 | \$ 2,515,467 | \$ 103,273 | \$ - | \$ 4,597,604 |

| | One-to-four Real Estate | Multi-family Real Estate | Commercial Real Estate | Consumer & Commercial | Unallocated | Total |
|---------------------------------------|----------------------------|-----------------------------|---------------------------|--------------------------|-------------|--------------|
| For the year ended September 30, 2012 | | | | | | |
| Balance at beginning of period | \$ 1,077,745 | \$ 1,117,592 | \$ 5,568,906 | \$ 670,373 | \$ 31,115 | \$ 8,465,731 |
| Provision for loan losses | 278,683 | 900,158 | 1,791,720 | (234,351) | (31,115) | 2,705,095 |
| Recoveries | 171,319 | 204,634 | 287,127 | 24,005 | - | 687,085 |
| Charge-offs | (1,002,188) | (1,573,803) | (4,362,646) | (395,326) | - | (7,333,963) |
| Balance at end of period | \$ 525,559 | \$ 648,581 | \$ 3,285,107 | \$ 64,701 | \$ - | \$ 4,523,948 |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended September 30, 2011:

| | <u>One-to-four Real Estate</u> | <u>Multi-family Real Estate</u> | <u>Commercial Real Estate</u> | <u>Consumer & Commercial</u> | <u>Unallocated</u> | <u>Total</u> |
|---------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|--------------------|---------------------|
| For the year ended September 30, 2011 | | | | | | |
| Balance at beginning of period | \$ 778,806 | \$ 999,146 | \$ 6,222,109 | \$ 366,548 | \$ 117,984 | \$ 8,484,593 |
| Provision for loan losses | 518,895 | 367,430 | 2,592,535 | 306,249 | (86,869) | 3,698,240 |
| Recoveries | 2,788 | - | 20,000 | - | - | 22,788 |
| Charge-offs | <u>(222,744)</u> | <u>(248,984)</u> | <u>(3,265,738)</u> | <u>(2,424)</u> | <u>-</u> | <u>(3,739,890)</u> |
| Balance at end of period | <u>\$ 1,077,745</u> | <u>\$ 1,117,592</u> | <u>\$ 5,568,906</u> | <u>\$ 670,373</u> | <u>\$ 31,115</u> | <u>\$ 8,465,731</u> |

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment¹ in loans by portfolio segment and based on impairment method as of September 30, 2013:

| | Total | | | | | |
|---|----------------------------|-----------------------------|---------------------------|--------------------------|-------------|-----------------------|
| | One-to-four Real Estate | Multi-family Real Estate | Commercial Real Estate | Consumer & Commercial | Unallocated | Total |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ 3,353 | \$ 15,325 | \$ 82,388 | \$ - | \$ - | \$ 101,066 |
| Collectively evaluated for impairment | 774,049 | 1,186,137 | 2,433,079 | 103,273 | - | 4,496,538 |
| Total ending allowance balance | <u>\$ 777,402</u> | <u>\$ 1,201,462</u> | <u>\$ 2,515,467</u> | <u>\$ 103,273</u> | <u>\$ -</u> | <u>\$ 4,597,604</u> |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 3,540,719 | \$ 7,442,309 | \$ 5,486,558 | \$ 207,643 | | \$ 16,677,229 |
| Loans collectively evaluated for impairment | 119,661,420 | 78,339,343 | 66,237,647 | 10,184,684 | | 274,423,094 |
| Total ending loans balance | <u>\$ 123,202,139</u> | <u>\$ 85,781,652</u> | <u>\$ 71,724,205</u> | <u>\$ 10,392,327</u> | | <u>\$ 291,100,323</u> |

¹ The recorded investment is the principal balance and accrued interest receivable less any deferred fees/costs.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment¹ in loans by portfolio segment and based on impairment method as of September 30, 2012:

| | Total | | | | | |
|---|----------------------------|-----------------------------|---------------------------|--------------------------|-------------|-----------------------|
| | One-to-four Real Estate | Multi-family Real Estate | Commercial Real Estate | Consumer & Commercial | Unallocated | Total |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ 6,329 | \$ 22,801 | \$ 112,541 | \$ - | \$ - | \$ 141,671 |
| Collectively evaluated for impairment | 519,230 | 625,780 | 3,172,566 | 64,701 | - | 4,382,277 |
| Total ending allowance balance | <u>\$ 525,559</u> | <u>\$ 648,581</u> | <u>\$ 3,285,107</u> | <u>\$ 64,701</u> | <u>\$ -</u> | <u>\$ 4,523,948</u> |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 4,234,986 | \$ 8,623,556 | \$ 5,176,145 | \$ - | | \$ 18,034,687 |
| Loans collectively evaluated for impairment | 113,063,654 | 83,654,826 | 77,159,277 | 8,650,680 | | 282,528,437 |
| Total ending loans balance | <u>\$ 117,298,640</u> | <u>\$ 92,278,382</u> | <u>\$ 82,335,422</u> | <u>\$ 8,650,680</u> | | <u>\$ 300,563,124</u> |

¹ The recorded investment is the principal balance and accrued interest receivable less any deferred fees/costs.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2013:

| | Average of Impaired Loans <u>During the Period</u> | Interest Income Recognized <u>During Impairment</u> | Cash Basis Interest Income <u>Recognized</u> |
|--------------------------------------|--|---|--|
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 3,806,422 | 223,285 | 223,285 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 8,013,717 | 453,691 | 453,691 |
| Commercial real estate (Except Land) | 5,435,124 | 352,749 | 352,749 |
| Land | 66,444 | 9,644 | 9,644 |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | 8,555 | 483 | 483 |
| Other | 201,925 | 13,204 | 13,204 |
| Total | <u>\$ 17,532,187</u> | <u>\$ 1,053,056</u> | <u>\$ 1,053,056</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2012:

| | Average of Impaired Loans <u>During the Period</u> | Interest Income Recognized <u>During Impairment</u> | Cash Basis Interest Income <u>Recognized</u> |
|--------------------------------------|--|---|--|
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 4,457,813 | 244,847 | 244,847 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 8,923,740 | 474,828 | 474,828 |
| Commercial real estate (Except Land) | 6,393,013 | 283,650 | 283,650 |
| Land | 107,122 | 7,815 | 7,815 |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | 108,922 | 1,341 | 1,341 |
| Total | <u>\$ 19,990,610</u> | <u>\$ 1,012,481</u> | <u>\$ 1,012,481</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2011:

| | Average of Impaired Loans <u>During the Period</u> | Interest Income Recognized <u>During Impairment</u> | Cash Basis Interest Income <u>Recognized</u> |
|--------------------------------------|--|---|--|
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 4,433,766 | 200,988 | 200,988 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 7,220,226 | 360,025 | 360,025 |
| Commercial real estate (Except Land) | 9,067,826 | 265,739 | 265,739 |
| Land | 362,453 | - | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | 903,056 | 28,151 | 28,151 |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | 26,937 | 2,615 | 2,615 |
| Total | <u>\$ 22,014,264</u> | <u>\$ 857,518</u> | <u>\$ 857,518</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2013:

| | Unpaid Principal <u>Balance</u> | Recorded <u>Investment</u> | Allowance for Loan Losses <u>Allocated</u> |
|--------------------------------------|---------------------------------------|-------------------------------|--|
| With no related allowance recorded: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 3,112,662 | 2,489,577 | - |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 6,287,313 | 5,147,757 | - |
| Commercial real estate (Except Land) | 1,599,305 | 694,546 | - |
| Land | 92,534 | 47,552 | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | 10,526 | 10,526 | - |
| Other | 484,357 | 197,117 | - |
| | <u>11,586,697</u> | <u>8,587,075</u> | <u>-</u> |
| With an allowance recorded: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | - | - | - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 1,047,886 | 1,051,142 | 3,353 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 2,287,249 | 2,294,552 | 15,325 |
| Commercial real estate (Except Land) | 4,734,916 | 4,744,460 | 82,388 |
| Land | - | - | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | - | - | - |
| | <u>8,070,051</u> | <u>8,090,154</u> | <u>101,066</u> |
| Total | <u>\$ 19,656,748</u> | <u>\$ 16,677,229</u> | <u>\$ 101,066</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2012:

| | Unpaid Principal <u>Balance</u> | Recorded <u>Investment</u> | Allowance for Loan Losses <u>Allocated</u> |
|--------------------------------------|---------------------------------------|-------------------------------|--|
| With no related allowance recorded: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 2,714,882 | 2,051,153 | - |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 4,671,521 | 3,248,203 | - |
| Commercial real estate (Except Land) | 2,437,577 | 701,253 | - |
| Land | 107,912 | 90,018 | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Mobile Home Loans | - | - | - |
| Other | 371,321 | - | - |
| | <u>10,303,213</u> | <u>6,090,627</u> | <u>-</u> |
| With an allowance recorded: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | - | - | - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate: | | | |
| Secured by First Liens | 2,176,998 | 2,183,833 | 6,329 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 5,428,777 | 5,375,353 | 22,801 |
| Commercial real estate (Except Land) | 4,379,030 | 4,384,874 | 112,541 |
| Land | - | - | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | - | - | - |
| | <u>11,984,805</u> | <u>11,944,060</u> | <u>141,671</u> |
| Total | <u>\$ 22,288,018</u> | <u>\$ 18,034,687</u> | <u>\$ 141,671</u> |

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2013:

| | <u>Nonaccrual</u> | Loans Past Due Over 90 Days Still | |
|--------------------------------------|---------------------|---|----------|
| | | <u>Accruing</u> | |
| Construction Loans on: | | | |
| One-to-four family real estate | \$ - | \$ - | - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate | | | |
| Secured by First Liens | 1,900,368 | - | - |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 3,558,494 | - | - |
| Commercial real estate (Except Land) | 694,546 | - | - |
| Land | 47,552 | - | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | 10,526 | - | - |
| Other | 197,117 | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total | <u>\$ 6,408,603</u> | <u>\$ -</u> | <u>-</u> |

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2012:

| | <u>Nonaccrual</u> | Loans Past Due Over 90 Days Still |
|--------------------------------------|---------------------|---|
| | | <u>Accruing</u> |
| Construction Loans on: | | |
| One-to-four family real estate | \$ - | \$ - |
| Multi-family real estate | - | - |
| Commercial real estate | - | - |
| One-to-four family real estate | | |
| Secured by First Liens | 2,051,153 | - |
| Secured by Junior Liens | - | - |
| Multi-family real estate | 3,248,203 | 39,818 |
| Commercial real estate (Except Land) | 701,253 | - |
| Land | 90,018 | - |
| Commercial Loans: | | |
| Secured | - | - |
| Unsecured | - | - |
| Consumer Loans: | | |
| Loans on Deposits | - | - |
| Auto Loans | - | - |
| Other | - | - |
| | <hr/> | <hr/> |
| Total | <u>\$ 6,090,627</u> | <u>\$ 39,818</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2013 by class of loans:

| | 30 - 59 Days | | 60 - 89 Days | | Greater than 90 Days | | Total | | Loans Not Past Due | | Total |
|--------------------------------------|-----------------|------------|-----------------|--------------|-------------------------|----------------|-----------|------|-----------------------|------|-------------|
| | Past Due | | Past Due | | Past Due | | Past Due | | Past Due | | |
| Construction Loans on: | | | | | | | | | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - | - | - | - | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - | - | - | - | - | - | - |
| One-to-four family real estate: | | | | | | | | | | | |
| Secured by First Liens | 468,494 | | 127,219 | | 1,096,136 | | 1,691,849 | | 120,929,871 | | 122,621,720 |
| Secured by Junior Liens | - | | - | | - | | - | | 580,419 | | 580,419 |
| Multi-family real estate | - | | - | | 1,552,012 | | 1,552,012 | | 84,229,640 | | 85,781,652 |
| Commercial real estate (Except Land) | - | | - | | 208,625 | | 208,625 | | 70,643,184 | | 70,851,809 |
| Land | - | | - | | - | | - | | 872,396 | | 872,396 |
| Commercial Loans: | | | | | | | | | | | |
| Secured | - | | - | | - | | - | | 412,699 | | 412,699 |
| Unsecured | - | | - | | - | | - | | 6,259,223 | | 6,259,223 |
| Consumer Loans: | | | | | | | | | | | |
| Loans on Deposits | - | | - | | - | | - | | 175,415 | | 175,415 |
| Auto Loans | - | | - | | 10,526 | | 10,526 | | 35,876 | | 46,402 |
| Other | 197,117 | | - | | - | | 197,117 | | 3,301,471 | | 3,498,588 |
| Total | \$ 665,611 | \$ 127,219 | \$ 2,867,299 | \$ 3,660,129 | \$ 287,440,194 | \$ 291,100,323 | | | | | |

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2012 by class of loans:

| | 30 - 59 Days | | 60 - 89 Days | | Greater than 90 Days | | Total | | Loans Not Past Due | | Total |
|--------------------------------------|-----------------|------------|-----------------|--------------|-------------------------|----------------|-----------|------|-----------------------|------|-------------|
| | Past Due | | Past Due | | Past Due | | Past Due | | Past Due | | |
| Construction Loans on: | | | | | | | | | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 25,205 | \$ - | \$ 25,205 |
| Multi-family real estate | - | - | - | - | - | - | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - | - | - | - | - | - | - |
| One-to-four family real estate: | | | | | | | | | | | |
| Secured by First Liens | 1,088,449 | | 278,338 | | 1,623,444 | | 2,990,231 | | 113,605,596 | | 116,595,827 |
| Secured by Junior Liens | 13,647 | | - | | - | | 13,647 | | 663,961 | | 677,608 |
| Multi-family real estate | 222,147 | | 148,198 | | 2,846,783 | | 3,217,128 | | 89,061,254 | | 92,278,382 |
| Commercial real estate (Except Land) | 308,793 | | - | | 553,000 | | 861,793 | | 80,442,698 | | 81,304,491 |
| Land | - | | - | | 90,018 | | 90,018 | | 940,913 | | 1,030,931 |
| Commercial Loans: | | | | | | | | | | | |
| Secured | 395,135 | | - | | - | | 395,135 | | 143,369 | | 538,504 |
| Unsecured | - | | - | | - | | - | | 4,573,656 | | 4,573,656 |
| Consumer Loans: | | | | | | | | | | | |
| Loans on Deposits | - | | - | | - | | - | | 162,974 | | 162,974 |
| Auto Loans | - | | - | | - | | - | | 100,566 | | 100,566 |
| Other | - | | - | | - | | - | | 3,274,980 | | 3,274,980 |
| Total | \$ 2,028,171 | \$ 426,536 | \$ 5,113,245 | \$ 7,567,952 | \$ 292,995,172 | \$ 300,563,124 | | | | | |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

Troubled Debt Restructurings:

The Savings Bank had no specific reserves allocated to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2013. The Savings Bank also had no specific reserves allocated to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2012. The Savings Bank has not committed to lend additional amounts as of September 30, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by class modified as trouble debt restructurings that occurred during the year ending September 30, 2013:

| | <u>Number of Loans</u> | <u>Pre-Modification Outstanding Recorded Investment</u> | <u>Post-Modification Outstanding Recorded Investment</u> |
|--------------------------------------|----------------------------|---|--|
| Troubled Debt Restructurings: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate | | | |
| Secured by First Liens | 13 | 1,205,946 | 1,205,946 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 7 | 3,649,682 | 3,649,682 |
| Commercial real estate (Except Land) | 4 | 3,993,041 | 3,993,041 |
| Land | 1 | 99,982 | 99,982 |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | - | - | - |
| Total | <u>25</u> | <u>\$ 8,948,651</u> | <u>\$ 8,948,651</u> |

During the fiscal year ending September 30, 2013, the modifications of the terms of the one-to-four family real estate loans secured by first liens included the extension of the maturity dates for three loans and the agreement to accept reduced payments for ten loans. The modifications of multi-family real estate loans included the extension of maturity dates for two loans and the agreement to accept reduced payments for five loans. Three of the commercial real estate loans that were restructured were agreements to accept reduced payments and the extension of maturity dates. One of the commercial real estate loans was the refinancing of an existing troubled debt restructuring. The single modification for a land loan was an extension of the maturity date. There was no reduction in the recorded investment of these loans.

The troubled debt restructurings described above had no impact on the allowance for loan losses and resulted in no additional charge-offs during the year ending September 30, 2013.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents loans by class modified as trouble debt restructurings that occurred during the year ending September 30, 2012:

| | Number <u>of Loans</u> | Pre-Modification Outstanding Recorded <u>Investment</u> | Post-Modification Outstanding Recorded <u>Investment</u> |
|--------------------------------------|---------------------------|---|--|
| Troubled Debt Restructurings: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate | | | |
| Secured by First Liens | 2 | 486,030 | 486,030 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 3 | 2,271,196 | 2,271,196 |
| Commercial real estate (Except Land) | 2 | 3,173,569 | 3,173,569 |
| Land | 1 | 109,912 | 109,912 |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | - | - | - |
| Total | <u>8</u> | <u>\$ 6,040,707</u> | <u>\$ 6,040,707</u> |

During the fiscal year ending September 30, 2012, the modifications of the terms of the one-to-four family real estate loans secured by first liens, multi-family real estate loans, commercial real estate loans and a land loan all involved agreements to accept reduced payments. There was no reduction in the recorded investment of these loans.

These troubled debt restructurings had no impact on the allowance for loan losses and resulted in no charge-offs during the year ending September 30, 2012.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The following table presents loans by class modified as trouble debt restructurings that occurred during the year ending September 30, 2011:

| | Number <u>of Loans</u> | Pre-Modification Outstanding Recorded <u>Investment</u> | Post-Modification Outstanding Recorded <u>Investment</u> |
|--------------------------------------|---------------------------|---|--|
| Troubled Debt Restructurings: | | | |
| Construction Loans on: | | | |
| One-to-four family real estate | - | \$ - | \$ - |
| Multi-family real estate | - | - | - |
| Commercial real estate | - | - | - |
| One-to-four family real estate | | | |
| Secured by First Liens | 20 | 2,056,855 | 2,056,855 |
| Secured by Junior Liens | - | - | - |
| Multi-family real estate | 13 | 5,691,175 | 5,691,175 |
| Commercial real estate (Except Land) | 2 | 1,323,829 | 1,323,829 |
| Land | - | - | - |
| Commercial Loans: | | | |
| Secured | - | - | - |
| Unsecured | - | - | - |
| Consumer Loans: | | | |
| Loans on Deposits | - | - | - |
| Auto Loans | - | - | - |
| Other | - | - | - |
| Total | <u>35</u> | <u>\$ 9,071,859</u> | <u>\$ 9,071,859</u> |

During the fiscal year ending September 30, 2011, the modification of one multi-family real estate loan resulted from the acceptance of a decreased interest rate and the extension of the maturity date. The remaining thirty-four restructurings were the result of the acceptance of reduced payments. There was no reduction in the recorded investment in any loan restructured during this period.

These troubled debt restructurings had no impact on the allowance for loan losses and resulted in no charge-offs during the year ending September 30, 2011.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending September 30, 2013 and the year ending September 30, 2012.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Savings Bank's internal underwriting policy.

The Savings Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Savings Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans aggregated to one borrower with an outstanding balance greater than \$500,000. This analysis is performed on an annual basis by an independent external firm in addition to the Savings Bank's internal quarterly analysis of its un-aggregated portfolio. The Savings Bank uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

Loans not meeting the preceding criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. As of September 30, 2013, and based on the analysis performed as of September 30, 2013, the risk category of loans by class of loans is as follows:

| | Not Rated | Pass | Special Mention | Substandard | Doubtful | Loss |
|--------------------------------------|----------------|----------------|--------------------|---------------|------------|------|
| Construction Loans on: | | | | | | |
| One-to-four family real estate | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - | - |
| One-to-four family real estate | | | | | | |
| Secured by First Liens | 91,250,168 | 27,748,946 | 81,887 | 3,526,898 | 13,821 | - |
| Secured by Junior Liens | 580,419 | - | - | - | - | - |
| Multi-family real estate | 26,493,474 | 50,972,396 | 873,473 | 7,442,309 | - | - |
| Commercial real estate (Except Land) | 24,923,641 | 40,489,162 | - | 4,979,006 | 460,000 | - |
| Land | 198,990 | - | 625,854 | 47,552 | - | - |
| Commercial Loans: | | | | | | |
| Secured | 412,699 | - | - | - | - | - |
| Unsecured | 5,497,344 | 761,879 | - | - | - | - |
| Consumer Loans: | | | | | | |
| Loans on Deposits | 175,415 | - | - | - | - | - |
| Auto Loans | 35,876 | - | - | 10,526 | - | - |
| Other | 3,103,134 | 198,337 | - | 197,117 | - | - |
| Total | \$ 152,671,160 | \$ 120,170,720 | \$ 1,581,214 | \$ 16,203,408 | \$ 473,821 | \$ - |

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

Loans not meeting the preceding criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. As of September 30, 2012, and based on the analysis performed as of September 30, 2012, the risk category of loans by class of loans is as follows:

| | Not Rated | Pass | Special Mention | Substandard | Doubtful | Loss |
|--|-----------------------|-----------------------|---------------------|----------------------|-------------------|-------------|
| Construction Loans on: | | | | | | |
| One-to-four family real estate | \$ 25,205 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Multi-family real estate | - | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - | - |
| One-to-four family real estate Secured by First Liens | 98,782,105 | 13,404,194 | 174,541 | 4,147,339 | 87,648 | - |
| Secured by Junior Liens | 677,608 | - | - | - | - | - |
| Multi-family real estate | 42,669,610 | 40,027,852 | 957,364 | 8,623,556 | - | - |
| Commercial real estate (Except Land) | 32,130,445 | 43,867,079 | 220,840 | 4,621,024 | 465,103 | - |
| Land | 168,545 | 201,957 | 570,411 | 90,018 | - | - |
| Commercial Loans: | | | | | | |
| Secured | 538,504 | - | - | - | - | - |
| Unsecured | 843,802 | 3,729,854 | - | - | - | - |
| Consumer Loans: | | | | | | |
| Loans on Deposits | 162,974 | - | - | - | - | - |
| Auto Loans | 100,566 | - | - | - | - | - |
| Other | 3,270,439 | 4,541 | - | - | - | - |
| Total | \$ 179,369,803 | \$ 101,235,477 | \$ 1,923,156 | \$ 17,481,937 | \$ 552,751 | \$ - |

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 2 - LOANS RECEIVABLE (Continued)

The Savings Bank considers the performance of the loan portfolio and its impact on the allowance for loan losses. The Savings Bank also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in the portfolio based on payment activity as of September 30, 2013 and September 30, 2012:

| | September 30, 2013: | | September 30, 2012: | |
|--------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | <u>Performing</u> | <u>Nonperforming</u> | <u>Performing</u> | <u>Nonperforming</u> |
| Construction Loans on: | | | | |
| One-to-four family real estate | \$ - | \$ - | \$ 25,205 | \$ - |
| Multi-family real estate | - | - | - | - |
| Commercial real estate | - | - | - | - |
| One-to-four family real estate | | | | |
| Secured by First Liens | 120,721,352 | 1,900,368 | 114,544,674 | 2,051,153 |
| Secured by Junior Liens | 580,419 | - | 677,608 | - |
| Multi-family real estate | 82,223,158 | 3,558,494 | 88,990,361 | 3,288,021 |
| Commercial real estate (Except Land) | 70,157,263 | 694,546 | 80,603,238 | 701,253 |
| Land | 824,844 | 47,552 | 940,913 | 90,018 |
| Commercial Loans: | | | | |
| Secured | 412,699 | - | 538,504 | - |
| Unsecured | 6,259,223 | - | 4,573,656 | - |
| Consumer Loans: | | | | |
| Loans on Deposits | 175,415 | - | 162,974 | - |
| Auto Loans | 35,876 | 10,526 | 100,566 | - |
| Other | 3,301,471 | 197,117 | 3,274,980 | - |
| Total | <u>\$ 284,691,720</u> | <u>\$ 6,408,603</u> | <u>\$ 294,432,679</u> | <u>\$ 6,130,445</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 2 -- LOANS (Continued)

The Savings Bank has granted loans to certain directors, executive officers and their related business interests. The following is a summary of related party loan activity, for loans aggregating \$60,000 or more to any one related party, during 2013:

| | |
|------------------------------|-------------------|
| Balance at beginning of year | \$ 460,500 |
| New loans | 100,000 |
| Repayments | <u>(90,912)</u> |
| Balance at end of year | <u>\$ 469,588</u> |

There were no loans pledged to secure public deposits as required or permitted by law at year-end 2013 and at year end 2012. Borrowing agreements with the Federal Home Loan Bank of Cincinnati are collateralized in part by a blanket pledge of \$164.9 million of qualifying mortgage loans at year-end 2013. This blanket pledge consists of \$117.9 million of 1-4 family real estate and \$47.0 million of commercial real estate mortgage loans.

NOTE 3 -- PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at year end:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|--------------------|--------------------|
| Land and improvements | \$ 459,697 | \$ 434,697 |
| Buildings and improvements | 1,066,826 | 1,063,379 |
| Furniture and equipment | <u>548,383</u> | <u>573,651</u> |
| Total cost | 2,074,906 | 2,071,727 |
| Accumulated depreciation | <u>(1,301,994)</u> | <u>(1,342,832)</u> |
| | <u>\$ 772,912</u> | <u>\$ 728,895</u> |

NOTE 4 -- DEPOSITS

Deposits are summarized as follows at year-end:

| | <u>2013</u> | <u>2012</u> |
|-------------------------|-----------------------|-----------------------|
| NOW accounts | \$ 12,359,423 | \$ 11,498,600 |
| Passbook accounts | 6,467,061 | 5,749,829 |
| Money fund accounts | 31,452,936 | 30,742,856 |
| Certificates of deposit | <u>232,301,977</u> | <u>241,707,824</u> |
| | <u>\$ 282,581,397</u> | <u>\$ 289,699,109</u> |

The Savings Bank had approximately \$115.7 million and \$112.7 million of deposits in denominations in excess of \$100,000 at year-end 2013 and 2012.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 4 – DEPOSITS (Continued)

Certain certificates of deposit may be obtained through financial intermediaries from outside of the Savings Bank's traditional market area. The Savings Bank did not have any brokered deposits at year end 2013 and at year end 2012.

The Savings Bank accepts deposits from its employees, directors, executive officers and their related business interests. At September 30, 2013, such deposits totaled \$7.4 million, or 2.6% of total deposits. At September 30, 2012, such deposits totaled \$7.0 million, or 2.4% of total deposits.

At year-end 2013, scheduled maturities of certificates of deposit were as follows:

| | |
|---------------------------|-----------------------|
| Year ending September 30, | |
| 2014 | \$ 95,605,459 |
| 2015 | 48,167,380 |
| 2016 | 33,642,673 |
| 2017 | 14,135,506 |
| 2018 | 21,175,462 |
| Thereafter | <u>19,575,497</u> |
| | <u>\$ 232,301,977</u> |

NOTE 5 -- BORROWINGS

Borrowings, consisting of advances from the FHLB, are summarized as follows at year-end:

| | Year-end 2013 Interest Rate | <u>2013</u> | <u>2012</u> |
|--|-----------------------------------|---------------------|----------------------|
| Putable fixed rate advances, 7 year original maturity | -- | \$ - | \$ 3,000,000 |
| Putable fix rate advances, 10 year original maturity | 4.04 - 5.11% | <u>8,000,000</u> | <u>12,250,000</u> |
| | | <u>\$ 8,000,000</u> | <u>\$ 15,250,000</u> |

The Savings Bank's available cash management line of credit totaled \$25,000,000 at year-end 2013. There was no outstanding balance on this line at fiscal year-end 2013 and 2012.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 5 – BORROWINGS (Continued)

The putable fixed rate advances have a guaranteed rate until the putable option date. After this date the FHLB will have quarterly options to either require the Savings Bank to prepay the advance without a fee or allow the advance to remain at the original contracted fixed rate until the next quarterly option date. The putable option dates and maturity dates are as follows:

| | Interest <u>Rate</u> | Putable Option <u>Date</u> | Maturity <u>Date</u> |
|--|-------------------------|----------------------------------|-------------------------|
| \$2,500,000 Putable fixed rate advance | 4.58% | 12/02/13 | 06/01/17 |
| \$3,500,000 Putable fixed rate advance | 5.11% | 12/16/13 | 06/15/17 |
| \$2,000,000 Putable fixed rate advance | 4.04% | 11/21/13 | 08/21/17 |

The maximum month-end balance of advances outstanding was \$15,250,000 in 2013 and \$22,750,000 in 2012. The average balance of borrowings outstanding was \$11,083,000 in 2013 and \$21,375,000 in 2012. Advances under the borrowing agreements are collateralized by the Savings Bank's FHLB stock and a blanket pledge of qualifying mortgage loans as detailed in Note 2.

During the fiscal year 2013, the Savings Bank prepaid four putable fixed rate advances at the FHLB totaling \$7.25 million. As a result of these prepayments the Savings Bank incurred \$748,884 in penalties for the early extinguishment of these borrowings. During the fiscal year 2012, the Savings Bank prepaid two putable fixed rate advances at the FHLB totaling \$7.5 million. These prepayments resulted in the Savings Bank incurring \$550,059 in penalties for the early extinguishment of these borrowings.

At year-end 2013 and 2012, the Savings Bank had letters of credit from the FHLB totaling \$22,685,000 and \$22,535,000, respectively. The letters of credit are pledged by the Savings Bank to secure public deposits.

At year-end 2013, contractually required annual principal payments were as follows:

| | |
|---------------------------|---------------------|
| Year ending September 30, | |
| 2014 | \$ - |
| 2015 | - |
| 2016 | - |
| 2017 | 8,000,000 |
| 2018 | - |
| Thereafter | - |
| | <u>\$ 8,000,000</u> |

The Savings Bank may prepay its outstanding advances with the FHLB prior to their contractual maturities. The prepayment of FHLB advances could result in prepayment penalties, some of which could be substantial.

PERPETUAL FEDERAL SAVINGS BANK
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013, 2012 and 2011

NOTE 6 -- INCOME TAXES

An analysis of income tax expense is as follows:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|----------|---------------------|---------------------|---------------------|
| Current | \$ 2,056,264 | \$ 302,336 | \$ 1,011,781 |
| Deferred | (47,000) | 1,375,000 | 326,000 |
| | <u>\$ 2,009,264</u> | <u>\$ 1,677,336</u> | <u>\$ 1,337,781</u> |

Income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate of 34% for reason noted in the table below:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|---------------------|
| Income tax computed at the statutory rate | \$ 2,023,776 | \$ 1,691,622 | \$ 1,353,694 |
| Tax effect of: | | | |
| Tax exempt interest | (16,442) | (16,689) | (18,374) |
| Other items | 1,930 | 2,403 | 2,461 |
| | <u>\$ 2,009,264</u> | <u>\$ 1,677,336</u> | <u>\$ 1,337,781</u> |

The sources of gross deferred tax assets and gross deferred tax liabilities (rounded to thousands) at year-end are as follows:

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Deferred tax assets | | |
| Allowance for loan losses | \$ 1,563,000 | \$ 1,538,000 |
| Interest income on nonaccrual loans | 10,000 | 5,000 |
| Other real estate owned valuation allowance | 29,000 | 19,000 |
| Other | - | 14,000 |
| Deferred tax liabilities | | |
| FHLB stock dividends | (733,000) | (733,000) |
| Prepaid expenses | (80,000) | (72,000) |
| Deferred loan fees/costs | (39,000) | (71,000) |
| Other | (3,000) | - |
| Net deferred tax asset | <u>\$ 747,000</u> | <u>\$ 700,000</u> |

Sufficient taxes have been paid in prior years to warrant recording the deferred tax asset without a valuation allowance.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 6 -- INCOME TAXES (Continued)

No deferred tax liability is required to be recorded for the Savings Bank's tax bad debt reserves arising before December 31, 1987, totaling \$2,779,000, unless it is apparent that the reserves will reverse in the near future. Unrecognized deferred taxes on these reserves would total \$945,000. If the portion of retained earnings representing these reserves is used for any purpose other than to absorb bad debts, it will be added to future taxable income and the related tax will be recognized as expense.

At September 30, 2013, the Savings Bank had no unrecognized tax benefits. The Savings Bank does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months.

The Savings Bank is subject to U.S. federal income tax as well as a capital-based franchise tax in the State of Ohio. The Savings Bank is no longer subject to examination by taxing authorities for years prior to 2010.

NOTE 7 -- EMPLOYEE BENEFITS

The Savings Bank maintains a non-contributory profit sharing plan for all employees who meet certain qualifications. Employees are eligible to participate in the plan if they are 21 years of age or older and have completed one year of employment with more than 1,000 hours of service to the Savings Bank. Employer contributions are based on the Savings Bank's return on average assets for the year before nonrecurring items and are allocated to participants based on their annual salary. Employer contributions vest on a graduated basis at the rate of 20% per year in years two through six so that the employee is 100% vested upon completion of six years of service. Contribution expense for the plan was \$110,000, \$72,000 and \$70,500 for 2013, 2012, and 2011.

NOTE 8 -- COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

Litigation: The Savings Bank is periodically subjected to claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are not expected to have a material effect on financial condition or results of operations.

Loan Commitments: Certain financial instruments, including commitments to extend credit, standby letters of credit and financial guarantees, are used to meet financing needs of customers. These involve, to varying degrees, credit risk more than the amount reported in the financial statements. Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit, standby letters of credit and financial guarantees written. The same credit policies are used for commitments and conditional obligations as are used for loans. The amount of collateral obtained, if deemed necessary, on extension of credit is based on management's credit evaluation and generally consists of residential or commercial real estate. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements.

The Savings Bank had commitments to make fixed-rate loans at market rates totaling \$8.3 million and \$805,000 at year-end 2013 and 2012. The interest rates on fixed-rate commitments ranged from 3.15% to 5.50% at year-end 2013 and 3.25% to 5.50% at year-end 2012. Loan commitments are generally for 30 days. The Savings Bank was committed on unfunded portions of approved variable-rate lines of credit of \$6,197,000 and \$7,341,000 year-end 2013 and 2012.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 9 -- REGULATORY MATTERS

The Savings Bank is subject to various regulatory capital requirements administered by its federal regulatory agency, the Office of the Comptroller of the Currency (OCC). Failure to meet minimum capital requirements can initiate certain mandatory actions that, if undertaken, could have a direct material effect on the Savings Bank's operations and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Savings Bank must meet specific capital guidelines that involve quantitative measures of the Savings Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Savings Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about the Savings Bank's components, risk weightings and other factors. At year-end 2013 and 2012, management believes the Savings Bank complies with all regulatory capital requirements. As of the Savings Bank's last examination, it is considered well capitalized under the Federal Deposit Insurance Act at year-end 2013 and 2012. Management is not aware of any matters after the examination or after September 30, 2013 that would cause the Savings Bank's capital category to change.

The following is a reconciliation of shareholders' equity (in thousands) as reflected on the accompanying balance sheets, to regulatory capital at year-end 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------------|------------------|------------------|
| Total shareholders' equity | \$ 60,208 | \$ 58,365 |
| Nonallowable assets | - | - |
| Tier 1 (core) and tangible capital | <u>60,208</u> | <u>58,365</u> |
| Additional capital items: | | |
| General valuation allowance (limited) | 2,948 | 3,128 |
| Other assets required to be deducted | <u>-</u> | <u>-</u> |
| Total risk-based capital | <u>\$ 63,156</u> | <u>\$ 61,493</u> |

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 9 -- REGULATORY MATTERS (Continued)

At year-end 2013 and 2012, actual capital level and minimum required levels were (dollars in thousands):

| | <u>Actual</u> | | <u>Minimum Required For Capital Adequacy Purposes</u> | | <u>Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations</u> | |
|----------------------------|---------------|--------------|---|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <u>2013</u> | | | | | | |
| Total capital | | | | | | |
| (to risk-weighted assets) | \$ 63,156 | 27.0% | \$ 18,735 | 8.0% | \$ 23,419 | 10.0% |
| Tier 1 (core) capital | | | | | | |
| (to risk-weighted assets) | 60,208 | 25.7 | 9,368 | 4.0 | 14,051 | 6.0 |
| Tier 1 (core) capital | | | | | | |
| (to adjusted total assets) | 60,208 | 17.1 | 14,064 | 4.0 | 17,580 | 5.0 |
| Tangible capital | | | | | | |
| (to adjusted total assets) | 60,208 | 17.1 | 5,274 | 1.5 | N/A | |
| <u>2012</u> | | | | | | |
| Total capital | | | | | | |
| (to risk-weighted assets) | \$ 61,493 | 24.7% | \$ 19,908 | 8.0% | \$ 24,886 | 10.0% |
| Tier 1 (core) capital | | | | | | |
| (to risk-weighted assets) | 58,365 | 23.5 | 9,954 | 4.0 | 14,931 | 6.0 |
| Tier 1 (core) capital | | | | | | |
| (to adjusted total assets) | 58,365 | 16.0 | 14,564 | 4.0 | 18,205 | 5.0 |
| Tangible capital | | | | | | |
| (to adjusted total assets) | 58,365 | 16.0 | 5,461 | 1.5 | N/A | |

In addition to certain federal income tax considerations, OCC regulations impose limitations on the payment of dividends and other capital distributions by savings associations. The OCC also prohibits a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with the Savings Bank's mutual to stock conversion. Generally, capital distributions are limited to the current year to date undistributed net income and prior two years' undistributed net income, as long as the Savings Bank remains well capitalized after the proposed distribution.

The Savings Bank currently meets all of its capital requirements and, unless the OCC determines that the Savings Bank is an institution requiring more than normal supervision, the Savings Bank may pay dividends in accordance with the foregoing provisions of OCC regulations.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 10 -- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions that market participants would use in pricing an asset or liability.

The Savings Bank used the following methods and significant assumptions to estimate fair value:

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses or the specific reserve is charged off against the loan balance. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Savings Bank.

The Savings Bank had no assets or liabilities carried at fair value and measured on a recurring basis.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 10 -- FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

| | Fair Value Measurements at September 30, 2013 Using | | |
|---|--|---|--|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| Impaired loans | | | |
| Multi-family real estate | \$ - | \$ - | \$ 917,878 |
| Commercial real estate (except land) | \$ - | \$ - | \$ 460,000 |

| | Fair Value Measurements at September 30, 2012 Using | | |
|---|--|---|--|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| Impaired loans | | | |
| Multi-family real estate | \$ - | \$ - | \$ 1,190,000 |
| Commercial real estate (except land) | \$ - | \$ - | \$ 466,177 |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$1.4 million, with no valuation allowance, and required an additional provision for loan losses of \$129,000 for the year-end September 30, 2013. At September 30, 2012, impaired loans, which were also measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$1.7 million; with no valuation allowance, and required an additional provision for loan losses of \$542,000 for the year-end.

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 10 -- FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at year end, September 30, 2013:

| | <u>Fair value</u> | <u>Valuation Technique</u> | <u>Unobservable Input(s)</u> | <u>Range (Weighted Average)</u> |
|--------------------------|-------------------|----------------------------|---|---------------------------------|
| Impaired loans | | | | |
| Multi-family real estate | \$ 917,878 | Sales comparison approach | Adjustment for differences between the comparable sales | 61.0% (61.0%) |
| Commercial real estate | \$ 460,000 | Sales comparison approach | Adjustment for differences between the comparable sales | 8.0% (8.0%) |

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at year end, September 30, 2012:

| | <u>Fair value</u> | <u>Valuation Technique</u> | <u>Unobservable Input(s)</u> | <u>Range (Weighted Average)</u> |
|--------------------------|-------------------|----------------------------|---|---------------------------------|
| Impaired loans | | | | |
| Multi-family real estate | \$ 1,190,000 | Sales comparison approach | Adjustment for differences between the comparable sales | 61.0% (61.0%) |
| Commercial real estate | \$ 466,177 | Sales comparison approach | Adjustment for differences between the comparable sales | 8.0% (8.0%) |

The carrying value and estimated fair value of the Savings Bank's financial instruments are as follows:

| | <u>September 30, 2013</u> | | <u>September 30, 2012</u> | |
|--|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | <u>Carrying Value</u> | <u>Estimated Fair Value</u> | <u>Carrying Value</u> | <u>Estimated Fair Value</u> |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 53,753,398 | \$ 53,753,000 | \$ 50,376,499 | \$ 50,376,000 |
| Interest-bearing time deposits in other financial institutions | 6,434,000 | 6,551,000 | 12,321,000 | 12,344,000 |
| Federal Home Loan Bank stock | 3,044,000 | N/A | 3,044,000 | N/A |
| Loans, net | 285,273,883 | 291,428,000 | 294,657,627 | 301,182,000 |
| Accrued interest receivable | 1,230,671 | 1,231,000 | 1,399,591 | 1,400,000 |
| Financial liabilities: | | | | |
| Demand and savings deposits | (50,279,420) | (50,279,000) | (47,991,285) | (47,991,000) |
| Certificates of deposit | (232,301,977) | (235,966,000) | (241,707,824) | (245,632,000) |
| FHLB advances | (8,000,000) | (9,272,000) | (15,250,000) | (17,871,000) |
| Accrued interest payable | (50,910) | (51,000) | (92,960) | (93,000) |

For purposes of the above disclosures of estimated fair value, certain assumptions were used. Carrying value is considered to approximate fair value for cash and cash equivalents, accrued interest receivable, loans that

PERPETUAL FEDERAL SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
September 30, 2013, 2012 and 2011

NOTE 10 -- FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

contractually reprice at intervals of less than six months, deposit liabilities subject to immediate withdrawal, short-term borrowings and accrued interest payable. It was not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions place on its transferability. The fair values of fixed-rate loans and loans that reprice less frequently than each six months are approximated by a discount rate value technique, assuming certain prepayment speeds and utilizing estimated market interest rates. The fair value of interest-bearing time deposits in other financial institutions, certificates of deposit and long-term borrowings are approximated by a discount rate value technique utilizing estimated market rates of interest. The fair value of unrecorded commitments is not material.

PERPETUAL FEDERAL SAVINGS BANK
STOCKHOLDER INFORMATION

DIVIDENDS AND PRICE RANGE OF COMMON STOCK

The table below shows the range of high and low bid prices and cash dividends declared per share for each quarter in the last two fiscal years. The bid prices reflect inter-dealer prices, without retail markups, markdowns or commissions and may not represent actual transactions. Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. Market-makers for the Savings Bank's stock include Sweney Cartwright and Company of Columbus, Ohio; Monroe Securities of Rochester, New York; Pershing Trading Company of Jersey City, New Jersey; Knight Equity Markets, LP of Jersey City, New Jersey; Automated Trading Desk Financial Services LLC of Charleston, South Carolina; Stifel Nicolaus & Co., Inc. of St. Louis, Missouri; StockCross Financial Services of Jersey City, New Jersey; E*Trade Capital Markets, LLC of New York, New York; Citadel Securities LLC of Chicago, Illinois; and Boenning & Scattergood, Inc. of Powell, Ohio. The common shares of the Bank are quoted on The OTC Markets Inc.'s OTCQB market under the symbol "PFOH".

| <u>Quarter Ended</u> | <u>High</u> | <u>Low</u> | <u>Dividends</u> | <u>Quarter Ended</u> | <u>High</u> | <u>Low</u> | <u>Dividends</u> |
|----------------------|-------------|------------|------------------|----------------------|-------------|------------|------------------|
| December 31, 2011 | \$ 11.50 | \$ 11.07 | \$ 0.16 | December 31, 2012 | \$ 16.90 | \$ 14.65 | \$ 0.34 |
| March 31, 2012 | 12.64 | 11.20 | 0.16 | March 31, 2013 | 16.50 | 15.80 | 0.17 |
| June 30, 2012 | 13.00 | 12.65 | 0.16 | June 30, 2013 | 19.00 | 16.50 | 0.17 |
| September 30, 2012 | 14.25 | 13.25 | 0.17 | September 30, 2013 | 19.50 | 18.92 | 0.17 |

As of September 30, 2013, the Savings Bank had approximately 739 shareholders of record and 2,470,032 outstanding shares of common stock, and there were no outstanding stock options.

See Note 9 of the Notes to the Financial Statements for information regarding restrictions on the Savings Bank's ability to pay dividends.

PERPETUAL FEDERAL SAVINGS BANK
STOCKHOLDER INFORMATION

TRANSFER AGENT

The Registrar and Transfer Company of Cranford, New Jersey acts as the transfer agent for Perpetual Federal Savings Bank's common stock.

STOCKHOLDER AND GENERAL INQUIRIES/ANNUAL REPORTS

Copies of the annual report may be obtained without charge by contacting:

Ms. Mary Heaston
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PERPETUAL FEDERAL SAVINGS BANK
CORPORATE INFORMATION

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BOARD OF DIRECTORS

C. Edward Stocksdale, Chairman of the Board
Retired Owner and Operator,
Stocksdale Insurance, Urbana, Ohio

Hobert H. Neiswander
Retired President of Rothschild
Berry Farm, Urbana, Ohio

Michael R. Melvin
President and Chief Executive Officer,
Perpetual Federal Savings Bank

Joseph P. Valore
Attorney, Urbana, Ohio

William G. Edwards
Retired President and Chief Operating Officer,
Knowlton Construction Co., Dublin, Ohio
Owner of Edwards Surveying Company,
Urbana, Ohio

Jesse L. Henson
Retired Vice President, W. B. Marvin
Manufacturing, Urbana, Ohio

Charles L. Sweeting
President and Chief Operating Officer,
Sweeting Tire Co., Urbana, Ohio

Dr. Steven R. Bohl
Owner, Bohl & Bauer, DDS, Urbana, Ohio

OFFICERS

Michael R. Melvin
President and Chief Executive Officer

Christine Anne Phelps
Senior Vice President-Secretary

Mary E. Heaston
Vice President

Jared E. Riblet
Treasurer

John M. Harrigan
Vice President-Lending

Jennifer J. Miller
Assistant Secretary

PERPETUAL FEDERAL SAVINGS BANK
CORPORATE INFORMATION

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Tanya Eggleston, Customer Service
Ruth Caldwell, Receptionist
Erin Chevalley, Customer Service
Maranda Dunfee, Customer Service
Sharon Harwood, Customer Service
Bradley Millice, Credit Analyst
Shelbe Rice, Customer Service

Liza Souders, Customer Service
Patricia Spangler, Customer Service
Tamara Stamper, Customer Service
Beth Tullis, Customer Service
Gregory Tullis, Service Maintenance
Nancy Valentine, Customer Service
Eric Warrick, Internal Auditor, Compliance
Lisa Wells, Customer Service

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MEMBERSHIPS

- Federal Deposit Insurance Corporation
- Federal Home Loan Bank of Cincinnati
- The Ohio Bankers League

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